

# An energy policy that works: Rate relief for Nova Scotia families



# Electricity Rate Relief Policy Paper

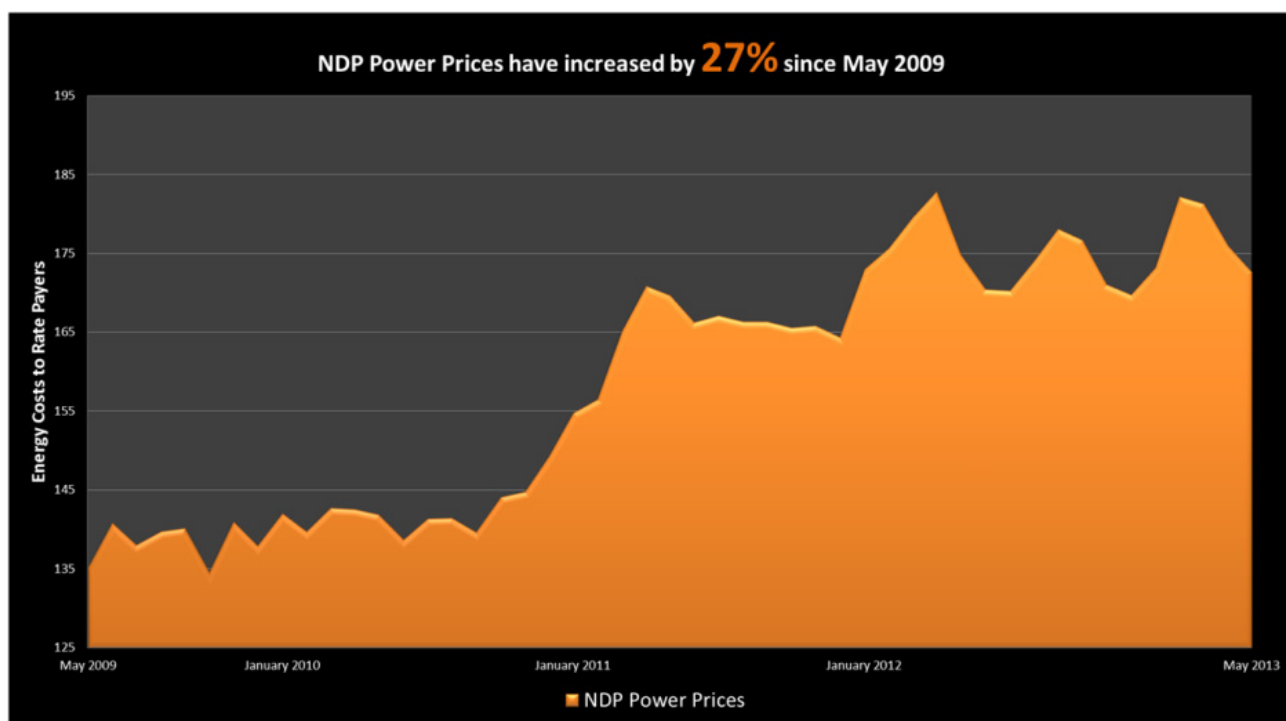
High power rates represent a real hardship for many Nova Scotia families. They also cost jobs. Building a modern, dynamic economy that is fair to everyone means stopping the rate increases now so families can catch up and our economy can grow and create jobs again.

## The current situation

Over the last four years, power rates increased by almost 30 per cent while our wages barely kept up with inflation.<sup>1</sup> This put an unacceptable squeeze on the Nova Scotia family pocketbook at a time when our economy is already weak.

For the small businesses that create most of our new jobs, energy costs have become a major concern holding our employers back. According to the Canadian Federation of Independent Business' (CFIB) monthly Business Barometer, small businesses consistently rate energy costs as a major constraint on their operations.<sup>2</sup>

Some say this is a global problem, but the facts say otherwise. Nova Scotians now pay the highest power rates in Canada.<sup>3</sup> Since 2009, energy prices here have risen much faster than everywhere else. Today, the typical Nova Scotia family pays \$125 per year more for electricity than their counterparts in the rest of the country.<sup>4</sup>



1 Statistics Canada CANSIM Table 326-0020

2 <http://www.cfib-fcei.ca/cfib-documents/Barometer-PROV-201306.pdf>

3 [http://www.hydro.mb.ca/regulatory\\_affairs/energy\\_rates/electricity/utility\\_rate\\_comp.shtml](http://www.hydro.mb.ca/regulatory_affairs/energy_rates/electricity/utility_rate_comp.shtml)

4 In 2010, the average residential customer had an average bill of \$257.53 every two months = \$128.77 per month = \$1,545.18 annually. : <http://www.nspower.ca/en/home/aboutnspower/mediacentre/NewsRelease/2010/fuelcosts/famfacts.aspx> If we add 3 per cent increases for the last two years we get \$1,591.54 after the first increase and \$1,639.28 now. This means that the average residential customer's bill would be \$273.21 (every two months). \$1639.28-\$1513.5 = \$125.78.

Meanwhile, the price of electricity is actually going down in many parts of the U.S., including the New England states.<sup>5</sup> They cite increased use of natural gas as the main reason for their declining electricity costs. Ironically, they are using our offshore natural gas, plus their own resources, to accomplish this.

As a result, we have a made-in-Nova Scotia problem when it comes to electricity prices. Our own families pay more, our ability to compete for jobs is reduced and that hurts our economy.

It's time we had an adult conversation about power rates. That means clearly, openly, and honestly identifying the problems that are unique to Nova Scotia and proposing real solutions to stop the madness of ever-increasing power rates.

## Power issues unique to Nova Scotia

### 1. Unreasonable renewable energy targets

One of the main reasons for our rate increases is the sky-high renewable energy targets imposed by the NDP and quietly supported by the Liberals.

We all want to use more renewable energy. In fact, prior to the election of the NDP, a Progressive Conservative government set binding renewable energy targets that received all-Party support.<sup>6</sup> They were designed to ensure we used more renewable energy, at a price we can afford, without putting our economy at risk. Many other provinces and states have taken similar measures.

Since then, the NDP raised renewable targets to among the highest in North America.<sup>7</sup> They are far higher than other provinces and even higher than large U.S. states like California. The result is much higher electricity prices for Nova Scotians, compared to the national average.

***“The Province’s electricity administrator is ‘unnecessarily increasing ratepayer bills by millions of dollars by acquiring far too much renewable energy.’”***

- The Consumer Advocate (allnovascotia.com February 7, 2012)

Unfortunately, the real “bite” in the NDP “bite the bullet and pay more” plan has yet to be felt. Most of the damage from their extreme position has yet to show up in our power rates and, left unchecked, will lead to further jobs losses and more family hardship.

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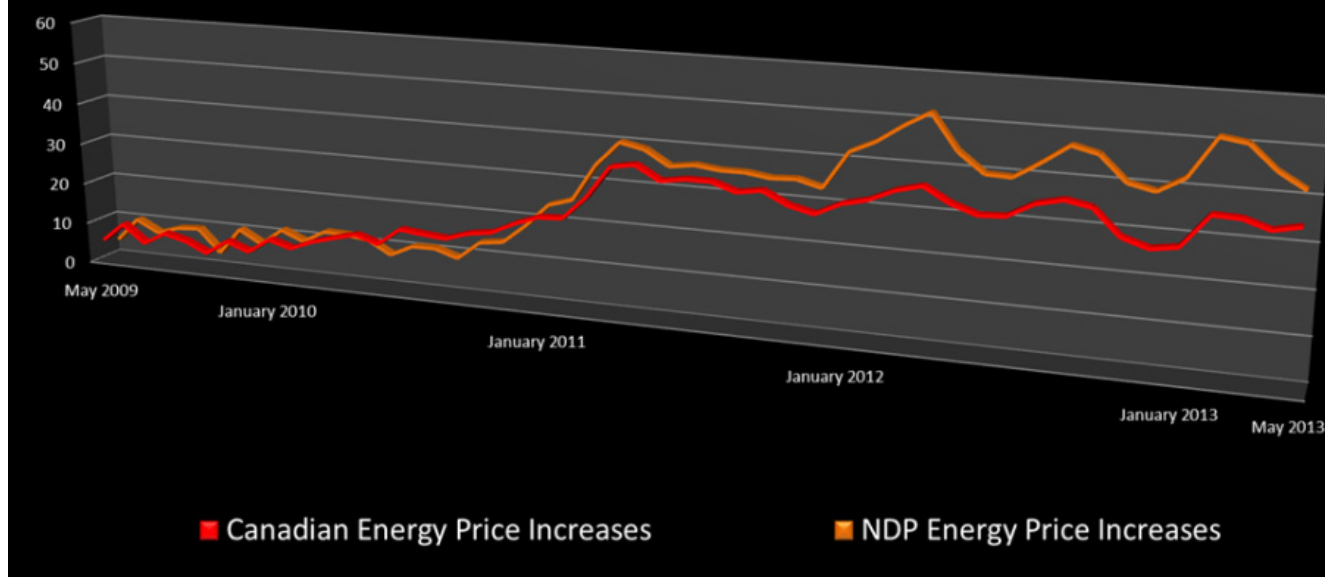
<sup>5</sup> <http://usatoday30.usatoday.com/money/industries/energy/story/2012-01-16/low-natural-gas-prices/52592508/1>

[http://www.iso-ne.com/nwsiss/pr/2012/final\\_amr11\\_release\\_05152012.pdf](http://www.iso-ne.com/nwsiss/pr/2012/final_amr11_release_05152012.pdf)

<sup>6</sup> <http://nslegislature.ca/legc/PDFs/annual%20statutes/2007%20Spring/c007.pdf>

<sup>7</sup> <http://www.reuters.com/article/2011/10/04/us-energy-novascotia-idUSTRE79359820111004>

## NS Energy Prices Leave National Prices in Their Dust



Source: Statistics Canada CANSIM Table 326-0020

## 2. Reining in Nova Scotia Power

Our electricity utility, Nova Scotia Power, has worked hand-in-glove with the NDP to increase the renewable targets and build lots of new, expensive projects to achieve them. No wonder Nova Scotia Power has a guaranteed profit of over nine per cent on the money they spend on these projects.<sup>8</sup>

Nova Scotia Power should not enjoy this guarantee or the inherent incentive they have to push for more and more expensive projects. It is no wonder Nova Scotia Power's annual profit has grown by 19 per cent, to \$126 million, over the past four years.<sup>9</sup>

## 3. Expensive projects we can't afford

The actual demand for electricity is going down in Nova Scotia.<sup>10</sup> This is partly due to good conservation measures. Sadly, it is also due to the loss of heavy electricity users in manufacturing and the important jobs that went with them.

Nevertheless, Nova Scotia Power continues to push for more guaranteed investment in new projects. They are given an advantage when bidding for new wind projects.<sup>11</sup> They pushed for Muskrat Falls and the Maritime Link without proving it is truly the lowest-cost option, or that we even need the power. A responsible government would not simply take the company's word for all of this or allow the costs to continuously be passed along to consumers while the guaranteed profit goes to Nova Scotia Power.

<sup>8</sup> Public Utilities Act. R.S., c. 380, s. 1

<sup>9</sup> Emera Annual Reports

<sup>10</sup> <http://newstartns.ca/wp-content/uploads/2012/06/Comparison-of-Demand-to-Supply-bar-line.pdf>

<sup>11</sup> <http://thechronicleherald.ca/business/727355-taylor-ns-success-may-depend-which-way-the-wind-blows>

#### 4. Nova Scotia on its own

Nova Scotia is a small, aging province with a declining population and an economy stuck in neutral.<sup>12</sup> As a result, fewer and fewer of us are paying more and more to support the provincial electricity system. This vicious circle is unfair to today's consumers. The same is true of the other Maritime Provinces. The time has come to work together on a regional approach to power, in order to lower costs for everyone.

### The plan: Rate relief for five years, turn economy around

Quite simply, we cannot go on like this. We cannot allow the NDP government and Nova Scotia Power to continue this pace of rate increases.

Progressive Conservative leader Jamie Baillie has a plan to stop power rate increases in their tracks. By implementing the detailed plan below, power rate increases will stop, giving Nova Scotians a break. No more household budgets need to be squeezed. Not another Nova Scotia job needs to be lost.

A PC government will make a five-year period of electricity rate relief the law. This includes both the base rate of power and fuel costs.

We will ensure there are no rate increases in all customer classes (residential, commercial, industrial) for a total of five years, beginning January 1, 2014. For those five years, Nova Scotia Power will not be allowed to pass along energy price increases to consumers and Nova Scotians will know the price they pay for electricity will not go up again.

There will always be cynics who say it cannot be done. There are also powerful special interests who want to keep things the way they are. They will have to answer for why they think rates should continue to go up.

### Five-point detailed plan to provide rate relief

#### 1. Buy renewable electricity within the current rates

As we pay off the old coal plants, a PC government will direct Nova Scotia Power to invest the savings in new renewable energy, without raising power rates. The good news is that we can build a lot of renewable energy generation this way and keep rates from rising. This is much like paying off your mortgage and then using the savings for something else, instead of being forced to pay for two mortgages at the same time.

Both the NDP and the Liberals will force the power utility to build lots of renewable generation right now, by requiring 40 per cent of our power to come from renewable sources by 2020.<sup>13</sup> The problem is that they are forcing people to pay to build expensive new generation while we are still paying for old plants that are still usable. This is the same as paying two mortgages at once.

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<sup>12</sup> Statistics Canada CANSIM Table 051-0005

<sup>13</sup> <http://www.gov.ns.ca/just/regulations/regs/elecrenew.htm>

Nova Scotians should not be asked to pay two mortgages at once, particularly not when the economy is struggling and their own incomes are not able to keep pace. To give Nova Scotians a break, a PC government will maintain the 40 per cent renewable target, but move the deadline forward five years to 2025. This enables Nova Scotia to move to renewable energy sources at a pace we can afford.

Slowing down the rapid build-up of expensive new power generation provides instant rate relief to Nova Scotians. After all, they are the ones who pay for every cent of these new projects through their rates, while Nova Scotia Power also gets a guaranteed nine per cent profit. This is why so many Nova Scotians have become skeptical of the expensive energy projects they keep hearing about.

To further protect Nova Scotia ratepayers, a PC government will ask the Utility and Review Board to develop a new Integrated Resource Plan. An Integrated Resource Plan independently determines our future energy needs, from various sources, and protects Nova Scotia ratepayers from future overbuilding (and overpaying) for electricity generation that we do not need.

These policy changes have two added benefits. First, they allow our existing power plants to operate more efficiently so they use less fuel. This costs Nova Scotians less and is better for the environment. Secondly, they allow more time for Nova Scotia to secure access to more natural gas, which is cheaper and cleaner to use.

We all support moving toward a greener energy future. In fact, it was a PC government that introduced the first targets in Nova Scotia.<sup>14</sup> Our path to renewable energy may take a little longer but we will end up in the same place. Meanwhile, no more jobs need to be lost or family budgets squeezed by further increases in power bills.

To further support rate relief, a PC government will cause the UARB to initiate a depreciation hearing in order to ensure that Nova Scotia Power gets the most use out of the current generation, transmission, distribution and other assets we are still paying for. In other words, we will ensure that the mortgage we are already paying is fairer to ratepayers and aligned with their ability to pay, within the current rates. In the case of the existing power generators, we will work to ensure this is done in a way that is consistent with federal emission guidelines and our Equivalency Agreement with Ottawa. In all other cases, we want to make sure we make the most out of the existing infrastructure while it is still usable.

These actions - extending the 40 per cent renewables deadline to 2025 and updating the rate at which Nova Scotia Power pays off existing infrastructure - provide the foundation for five years of real rate relief for Nova Scotians.

Of course, in addition to these solutions to rising rates, a PC government will ensure that Nova Scotia Power finds and implements further operating efficiencies and will penalize the company when it doesn't. We expect the company to come up with the savings necessary to keep rates flat and we will hold them accountable for doing so.

## Summary of Nova Scotia Power generating assets

Thermal Unit Net	Demonstrated Capacity (MW)		In Service/Retirement	Fuel
Tufts Cove 1	81	3.30%	1965	NG/HFO
Tufts Cove 2	93	3.80%	1972	NG/HFO
Tufts Cove 3	147	6.00%	1976	NG/HFO
Trenton 5	150	6.10%	1969/2014	Coal/Coke/HFO
Trenton 6	157	6.40%	1991/2036	Coal/Coke/HFO
Pt Tupper	152	6.20%	1973, coal conversion Pt Tupper 1987/2018	Coal/Coke/HFO
Lingan 1	153	6.30%	1979/2024	Coal/Coke/HFO
Lingan 2	153	6.30%	1980/2025	Coal/Coke/HFO
Lingan 3	158	6.50%	1983/2028	Coal/Coke/HFO
Lingan 4	153	6.30%	1984/2029	Coal/Coke/HFO
Pt Aconi	171	7.00%	1994/2039	Coal/Coke & Limestone Sorbent (CFB)
SubTotal	1,568	64.20%		

Combustion Turbines				
Tusket 1	24	1.00%		LFO
Burnside 1 – 4	132	5.40%		LFO
Victoria Junction 1 – 2	66	2.70%		LFO
Tufts Cove 4 – 5	98	4.00%		NG
Tufts Cove 6	48.6	2.00%	November 2010	NG
SubTotal	368.6	15.10%		

Hydro				
Wreck Cove	212	8.70%		
Other hydro	169.1	6.90%		
Wind	125.5	5.10%		
SubTotal	506.6	20.70%		

TOTAL	2443.2	100%		
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Hydro	Net Demonstrated Capacity	Other	Net Demonstrated Capacity
Wreck Cove	212	NSPI Owner Wind	0.3
Annapolis Tidal	3.7	Renewable IPP (pre 2001)	25.8
Avon	7.6	Renewable IPP (post 2001)	25.7
Black River	23	Renewable IPP (Post 2001)	73.7
Nicaux	8.2	(Contracted to be in-service by 2011)	
Liquille	12.5		
Paradise	5.3		
Mersey	42		
Sissiboo	28		
Bear River	11.5		
Tusket	2.7		
Roseway	1.6		
St Margarets	10		
Sheet Harbour	10		
Dickie Brook	2.5		
Fall River	0.5		
Total	381.1	Total	125.5

Source: Nova Scotia Utility and Review Board, NSPI 2009 Integrated Resource Plan Update Report



## 2. Scrap the fuel adjustment mechanism

The five-year rate relief applies to both components of our power rates:

### **a. The Base Rate**

This rate covers Nova Scotia Power overhead, salaries, administration, operations and a base fuel cost. We will not allow increases to it for five years. Nova Scotia Power has enjoyed the benefit of a huge increase in this rate under the NDP.<sup>15</sup> We will make sure that Nova Scotia Power cannot turn to their customers again to cover these escalating costs. They are a big company with well-compensated executives. We will make the policy changes necessary to keep rates from rising. They will figure out the rest.

### **b. The Fuel Adjustment Mechanism (FAM)**

In addition to the Base Rate, Nova Scotia Power consumers are asked to pay an additional amount for increases in the cost of fuels, such as coal, oil and natural gas that are used to make electricity. For several years, Nova Scotia Power has enjoyed the privilege of passing on the risk of higher fuel costs entirely to consumers, while they get a guaranteed profit of over nine per cent. This is not fair. A PC government will immediately end this unfairness by eliminating the Fuel Adjustment Mechanism.

It is true that future fuel prices are uncertain and predicting future costs accurately is risky. In our view, this risk should be borne by Nova Scotia Power, not ratepayers. Prior to introducing the FAM, Nova Scotia Power accepted this risk and managed within it, sometimes using hedging strategies and other means of protecting themselves. Working within an imposed five year policy of rate relief, that is, no more rate increases, Nova Scotia Power will be forced to consider hedging strategies that work for consumers, or accept that the risk of fuel price changes is on their shoulders. Either way, Nova Scotia ratepayers are protected.

## 3. Rein in Nova Scotia Power by removing their guaranteed profit

Even if Nova Scotia Power makes costly mistakes, ignores customer service and raises rates that force some of their customers out of business, the company is still guaranteed to make a profit of over nine per cent.<sup>16</sup>

None of Nova Scotia's home-grown small businesses, or large ones for that matter, enjoy this privilege. They don't expect it. They earn their profits and grow by providing good customer service at fair prices, every day. The same should be true of Nova Scotia Power.

A PC government will scrap the guarantee on Nova Scotia Power's profit and replace it with real penalties for poor service or unfair pricing. More specifically, we will immediately amend the Public Utilities Act to introduce performance-based regulation of Nova Scotia Power. Similar systems are already in place in British Columbia, Alberta and Ontario. Ironically, it is also in place in the State of Maine, where Emera already operates an electrical utility. If they can live with it there, they can certainly live with it here.

Quite simply, under the PC plan, Nova Scotia Power will lose money when they let customers down or overcharge them.

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<sup>15</sup> <http://www.cbc.ca/news/canada/nova-scotia/story/2012/05/08/ns-nsp-power-increase.html>

<sup>16</sup> Public Utilities Act. R.S., c. 380, s. 1



## 4. Use more natural gas

Natural gas is a clean burning fuel and a more affordable bridge to a renewable electricity future. The NDP government ignores natural gas because, although cleaner and cheaper, it is not “renewable.” Nova Scotia Power ignores using more natural gas because it doesn’t require the same expensive construction costs as their current plans and the nine per cent profit that goes with them.

A PC government wants to reduce emissions into the atmosphere in order to protect our environment. Natural gas helps us do that. It is also cheaper. This is why so many other provinces and states are switching to gas. Ironically, we have natural gas supplies offshore and a pipeline to Boston that can bring surplus U.S. gas here.<sup>17</sup> A PC government will require more use of natural gas to reduce emissions and halt power price increases.

Over the past year, there have been some significant spikes in the price of natural gas, although it remains cheaper and cleaner than other fuel sources. This highlights the need to secure firm, longer-term access to gas. With production starting at Deep Panuke, our gas supply issues will be relieved for several years. That is good news for Nova Scotians. In the meantime, a PC government will work to secure firm access to natural gas from other North American sources, such as the promising Marcellus gas field. We will then ensure the reversal of the Maritimes and Northeast pipeline to get that gas to our own market. Of course, we will also do everything we can to ensure further exploration and development of our own offshore gas fields and make sure that gas is used to meet Nova Scotia’s needs.

A final point on natural gas - it is a very good companion to wind power. Gas is very easy to switch on or off as needed. In this way, we can actually use wind more often and gas when it is cheaper to do so.

## 5. Create a Maritime energy grid

Power rate relief is an important start. But a PC government wants to reduce rates to give families a true break and really kick-start our economy. The best way to do this is by building a Maritimes-wide energy grid. This will require real leadership, as it means politicians must set aside petty regional differences and old attitudes and truly work together. Jamie Baillie is a new kind of political leader with the real-world business experience to get that done. He will start by focusing on a regional power grid.

A 2012 report from the Atlantic Energy Gateway<sup>18</sup> found that regional cooperation and a regional power grid, would save maritime consumers over \$900 million on their power bill every year. That is about \$300 each. Building a regional grid is a great way to give something back to ratepayers and kick-start the economy of our entire region. Even better, it means we can call on our combined renewable energy options more often without adding to the cost.

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<sup>17</sup> <http://brunswickpipeline.com/en/home/ourbusiness/aboutthepipeline/default.aspx>

<sup>18</sup> <http://nsrenewables.ca/atlantic-energy-gateway>

## Muskrat Falls and the Maritime Link

On July 22nd, UARB rejected the official Maritime Link application, demanding a major change in the terms of the deal before it could go ahead. The UARB decision highlights the flawed way the NDP government went about endorsing this project. Quite simply, our government should not blindly endorse expensive power projects just because Nova Scotia Power asks them to. The UARB also clearly pointed out that buying more power from Hydro-Quebec, the sole choice of the Liberals, is a “flawed” approach.

In both cases, no truly independent analysis was done. No one really stood up for ratepayers. The elected government took their cues from Nova Scotia Power itself. They even “sanctioned” construction before our regulator, the UARB, started its review.<sup>19</sup> No wonder Nova Scotians are frustrated.

Nova Scotia ratepayers foot the bill for expensive energy mega-projects like Muskrat Falls, while Nova Scotia Power pushes for them because they get the guaranteed profit. We pay the bills. They get the profit. That is not fair.

We would make these decisions very differently. A PC government will ensure, in law, that a thorough, independent review of large projects is completed before being sent to the UARB and well before electricity ratepayers are asked to pay. Only projects that truly save consumers money will be considered.

In the meantime, the UARB has confirmed what the PCs said all along: Muskrat Falls and the Maritime Link may be a good project but this is a bad financial deal for ratepayers. It is a good project because hydro power is clean and renewable and Nova Scotia should find an affordable way to enjoy its benefits. It is a bad financial deal because Nova Scotians don’t get guaranteed access to the cheapest, market-priced power. This is the main finding of the UARB. As a result, we still don’t know how much this power will cost when it gets to consumers.

The Muskrat Falls/Maritime Link deal must be renegotiated to protect consumers from the risk of even higher electricity prices in the future. As Premier, Jamie Baillie will insist on renegotiating this 35-year long financial deal, to make it more fair and affordable for ratepayers. Using all the tools available to a new government, he will ensure we get a better deal now, while the project is just beginning, before it is too late.

Five-year rate relief is part of this strategy. With the rate relief plan implemented, a PC government will insist on a new deal for ratepayers which fits within the current rates. Only then can Nova Scotians be assured their power rates won’t continue to skyrocket, while their ability to pay their and standard of living erode.

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<sup>19</sup> [http://www.emeranl.com/site/media/emeranl/Sanction%20Agreement\\_FINAL\\_12\\_17\\_12.pdf](http://www.emeranl.com/site/media/emeranl/Sanction%20Agreement_FINAL_12_17_12.pdf)

## After five years

The five-year rate relief period is designed to enable Nova Scotia to shift to a new mix of energy generation options at a pace we can afford. It is not based on expensive deferrals of costs. It does not require any public subsidy of power rates.

Five-year rate relief provides Nova Scotia ratepayers with a break. At the same time, it allows for investment in new, long-term options such as renewable power, natural gas and a Maritime grid. Each of these will be done at a pace we can afford, matched to our actual energy needs and consistent with important environmental regulations, such as greenhouse gas emission targets.

With five years to make these adjustments, a smoother transition can occur, sparing Nova Scotians from unwanted spikes in prices.

Now more than ever, it's time to truly change direction in Nova Scotia.

That can start with electricity prices.

# Summary

Affordable electricity prices are a key building block in a modern economy. Our politicians must set aside the old ways of doing things, including the way power prices are set. We cannot afford to go on like this. We cannot afford to allow high power rates to stifle economic growth.

To build a modern, dynamic, growing, 21st century economy, we need affordable power. After four years of increases, we need a break on our power bills. That means providing power rate relief for five years. This is a real plan that works.

## **1. Buy renewable electricity within the current rates**

- a. Maintain 40 per cent renewables target and extend deadline by five years to 2025;
- b. Have UARB complete a new Integrated Resource Plan to protect Nova Scotians from overbuilding and overpaying for electric generation we don't need;
- c. Work to extend the pay-off period for Nova Scotia Power assets to align with the ratepayer's ability to pay; and
- d. Require more operating efficiencies from Nova Scotia Power, with penalties.

## **2. Scrap the fuel-adjustment mechanism**

- a. Scrap the fuel-adjustment mechanism, get the risk of fuel-price increases off the backs of Nova Scotians and hand it back to Nova Scotia Power.

## **3. Rein in Nova Scotia Power by removing its guaranteed profit**

- a. Amend the Public Utilities Act to require performance-based regulation of Nova Scotia Power to ensure they lose money when they deliver poor service or unfair prices.

## **4. Use more natural gas**

- a. Require NS Power to use more natural gas, which is cleaner and cheaper;
- b. Secure long-term firm supplies of natural gas; and
- c. Encourage more exploration and development of our own offshore gas fields, and make sure that gas is used to meet Nova Scotia's needs.

## **5. Create a Maritime energy grid**

- a. Build a Maritime energy grid, in conjunction with our neighbouring provinces, to make our whole region stronger and save ratepayers money.

## Time to hear from you

Jamie Baillie and the Progressive Conservative Party want to hear from you about rate relief for Nova Scotia families.

1. Are high power rates causing hardship for your family or business? If so, tell us how.
2. Do you support power rate relief for a period of five years?
3. Should Nova Scotia Power have a deal that gives them a guaranteed profit?
4. Should Nova Scotia use more natural gas, instead of exporting so much away?
5. Should the Muskrat Falls project go ahead as is, even though ratepayers don't yet know the cost of the power it will bring to Nova Scotia?
6. Does the price of electricity matter if we want to have a growing economy and more jobs?

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**Send us your feedback by September 30, 2013**